

## eye of THE STORM

by Gene Retske

He came to prepaid calling services from a background as a service station entrepreneur. We watched as his stores and gas stations sold calling cards, lots of them in the white hot Miami market. But, because Arias' background was not telecommunications, he approached the industry with a different perspective than those who had come from telecom backgrounds.

This difference in point of view has led to a vastly different approach to the prepaid market and a strategy that is quite different from the traditional telecom formula for building a prepaid business. Investors and telecom execs believe that the key to turning profitable revenue and growing markets is to own and control the distribution channel from the top, the underlying carrier, all the way down to the retail outlet. They believe that creating prepaid business with a vertical orientation will allow them to "disintermediate" the channel, or remove layers of distribution. In doing so, the margins that exist at each layer can be collapsed, making the model more profitable for fewer players. Blackstone is different.

"We don't come from telecom, we come from the distribution model," says Arias.

"Everything that you see that we have developed is all designed to make us more efficient in distribution. We get calls every day from people wanting to sell us minutes. We just give them the telephone numbers of all the carriers we do business with."

We saw the impact of this model in nearly every corner of Blackstone. Or, maybe we didn't see the things one sees at almost every prepaid company. Where were the people with the multiple Rolodexes and the massive spreadsheets, calling carriers all day, pounding away for lower rates? And, what happened to the rows of customer service representatives, babbling away at consumers, instructing them in making calls and arguing about credits? And, where were the switch techs, sitting at terminals, grousing about trashed routes and down circuits? Blackstone does not look or feel like a telecom company at all. While this horizontal approach to the market may fly in the face of traditional beliefs, Blackstone claims to have been successful through this approach, even during the bad times.

### IT'S THE DISTRIBUTION, STUPID!

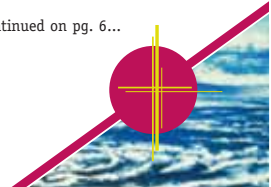
Arias was attracted to the prepaid industry from his involvement as an owner and operator of gas stations, and started building the Blackstone company in 1994.

This entry point provided Arias a "bottoms up" perspective, in contrast to the usual downward migration to prepaid, where carriers with network capacity and switches try to build and market consumer products, like calling cards. The goal for most telecom companies is to own the channel from network interface to retail countertop, for the reasons previously stated.

### NOT SO WITH BLACKSTONE.

"We have a very clean environment," Arias says. "We don't compete with our suppliers." He says that if you look at other industries, there are manufacturers and there are distributors. "A typical distributor does not compete with a manufacturer. By the same token, a typical distributor does not like to compete for different manufacturers. That's where we draw the line." He says he does not like it when carriers have a sales force that goes directly to retail stores. Blackstone currently sells products from over two dozen carriers.

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Inspired by the Air Force Hurricane Hunter airplanes, *The Prepaid Press* decided to visit the company at the heart of the POSA patent controversy, and flew into the center of the storm. We visited the Blackstone headquarters and Luis Arias in Miami, just after the New Year. In fact, the traditional dismantling of the Christmas tree on Three Kings Day was taking place in the Blackstone lobby as we entered.

### A DIFFERENT POINT OF VIEW

Luis Arias, the founder and owner of Blackstone, has a markedly different background than most prepaid business leaders.

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## experts see rise of 'ENTERPRISE' SOFTWARE

The corporate spending that drives the technology sector is as strong as it has been since the end of the 1990s boom, giving the industry optimism as it heads into 2004.

"This is not a burst. This is a sustainable interest," said Bill Zadrozny, chief executive of Siemens Financial Services, which helps businesses lease and finance new technology investments. "There were false starts before, but this one looks for real."

In the third quarter, equipment and software expenditures jumped 17.6 percent, helping fuel the 8.2 percent increase in gross domestic product, according to the Commerce Department.

Most of the end-of-year forecasts focusing more specifically on technology spending expect a 4 percent to 6 percent increase in 2004, notably healthier than in previous years when corporate stinginess weighed down the entire economy.

But that hardly amounts to another boom, and the momentum is uncertain, experts caution. In fact, there appears to have been some slowdown during the fall, perhaps because newly confident information technology managers realized they had overspent budgets set in 2003 when times were tougher.

"I don't think it's going to return to the boom days of five years ago anytime soon," said Tom Pohlmann, who follows technology spending at Forrester Research.

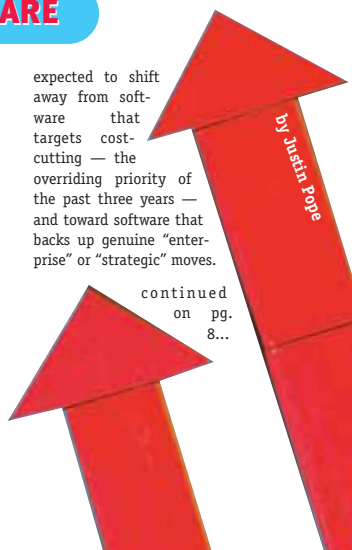
And the growth that comes won't necessarily be across the board. In year-end interviews, experts offered their view of the shape of tech spending in 2004.

### SOFTWARE

The buzz word for 2004, recycled from dot-com jargon, is "enterprise" software. Broadly speaking, companies are

expected to shift away from software that targets cost-cutting — the overriding priority of the past three years — and toward software that backs up genuine "enterprise" or "strategic" moves.

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### EYE OF THE STORM

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His experiences as a retail store owner and distributor led to an attempt at a different approach to marketing his products. "We don't create demand," he maintains. "We do distribution. That's why AT&T, Union, Codotel, Tricom, Americatel and those companies do their own marketing campaign. We don't do that." He says that Blackstone's job is to provide merchants with an efficient means for stocking the products that consumers are demanding.

### THE BLACKSTONE POS FAMILY

It was this "distribution only" strategy that led to his development of the POS (point of sale) machines, from the Hypercom device to the PC size "Touch and Go" terminal and the free standing kiosk he calls "the Portal." (Standing over six feet high, it reminds one of the portal that Kurt Russell jumped through in "Stargate.") All of these machines are reflective of the distribution only culture that Arias has stuck to so far, and are designed to support that model. Blackstone claims that all the software and development has been done in-house by their own staff.

Blackstone says that they are in over 300,000 locations with their products and terminals. The smallest of the devices, the Blackstone POS, can be used in low to moderate volume locations, and requires the retail clerk to physically load the card blanks and handle the transaction for the consumer. Because of the low cost of this device, even very small locations may find the Blackstone POS to be economical. Next up the line, although not in chronological order, is the "Touch & Go," soon to be renamed the "Touch & Buy" to avoid a

name conflict with an unrelated product. This device can be placed in a retail location, such as a convenience store, a hotel or restaurant, and is totally operated by the consumer. It accepts a variety of credit and debit cards, and offers a touch screen menu of calling cards and other prepaid products. The consumer can even compare products to get the best value, or use the menu system to select products for particular destinations. The machine handles the entire transaction, prints and dispenses a card for the consumer.



He says that talks are well along with some retailers that offer gift cards.

Arias points out that his device allows a gift card to be purchased anywhere, not just in that specific retail outlet. A gift card for any participating merchant could be purchased at any of the Blackstone POS locations. You could buy the shoes for your niece at a shopping mall, or at a turn-pike rest stop. Distribution only, remember? ■

At the upper end, is the "Portal," a gargantuan kiosk size machine, being over six feet high in its basic configuration. It can be expanded, covering a wall, if needed. This device can be put into less secure locations, and will handle thousands of transactions per week. It is already in some airports, transportation terminals and shopping malls now, and will be in sports arenas in the

near future. This high tech vending machine might be more accurately called a "vending mall," given the almost infinite variety of products that can be categorized and sold.

This family of devices is designed to allow the downloading of new products into the device. At the current time, the products are prepaid calling card products, but gift cards and other prepaid products are coming soon. "If I have to buy something for my niece, say, and I know that she likes shoes. I can't pick styles and sizes that will suit, but if I can buy a gift card, she can get exactly what she needs," says Arias.



Luis Arias

## owning the TECHNOLOGY

While the degree to which business operations and marketing strategies of Blackstone have been successful might be debated, there can be little disagreement about the importance of the recent patent granted to Luis Arias, the President/CEO and owner of Blackstone. This patent (No.: US 6,651,885) was filed in 2000 and granted in November, 2003. The patent is for a device that Blackstone is using as its primary distribution tool in selling prepaid calling cards, and covers a wide range of features from PIN delivery to real time reporting.

But, Arias has other patents pending. A quick search of the US Patent and Trademark Office web site for pending applications yielded two others that are being considered. Patent application number 20030204457, "Payee account payment system", was filed in October, 2003 and covers a system for a user to pay multiple accounts from one display terminal. The other, 20020188510, "Multi-function transaction processing system" filed in December, 2002, carries the same title as the one already granted.

### WHAT ARE ARIAS PLANS IN DEFENDING HIS PATENTS?

"We are going to stand very high and proud, and say, 'Hey, look. We have a patent on it. We didn't only design it and build it and get a patent for it, we've taken it to market,'"

- Luis Arias

